

Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 AGR-20 CIAE-00 COME-00 INR-11

LAB-06 NSAE-00 RSC-01 SP-03 STR-08 TRSE-00 SWF-02

CIEP-03 FRB-03 OMB-01 TAR-02 L-03 H-03 OPIC-12 SS-20

NSC-07 PA-04 PRS-01 USIA-15 DRC-01 /154 W

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R 062110Z SEP 74

FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 8023

INFO AMEMBASSY BOGOTA

AMEMBASSY GUATEMALA

AMEMBASSY MANAGUA

AMEMBASSY PANAMA

AMEMBASSY QUITO

AMCONSUL GUAYAQUIL

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

C O N F I D E N T I A L SECTION 1 OF 2 SAN JOSE 3439

E.O. 11652: GDS

TAGS: ETRD, CS

SUBJECT: BANANA COMPANY REACTION TO NEW TAX PROPOSAL

REF: SAN JOSE 3306

SUMMARY. EMBASSY HAS NOW INQUIRED ABOUT MINISTER SANCHEZ'S IDEA FOR A SETTLEMENT OF THE BANANA TAX PROBLEM OF REPRESENTATIVES OF THE TWO MAJOR BANANA COMPANIES HERE. THE STANDARD REPRESENTATIVE STATES THAT HIS COMPANY WILL HAVE TO FOLLOW THE LEAD OF UNITED FRUIT, MAKING APPROPRIATE ADJUSTMENTS IN ITS PRODUCTION AND PURCHASES TO COMPENSATE FOR COST INCREASES. THE UNITED FRUIT COMPANY REPRESENTATIVE BELIEVES THAT HIS COMPANY WILL FIND IT MOST DIFFICULT TO ACCEPT A FORMULA MORE ONEROUS THAN THAT ALREADY AGREED TO IN ITS SETTLEMENT WITH HONDURAS. END SUMMARY.

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1. AS A FOLLOW-UP TO REFTEL WHICH REPORTED NEW BANANA TAX FORMULA THAT MINISTER OF ECONOMY, INDUSTRY, AND COMMERCE SANCHEZ SAID HE HAD DISCUSSED WITH MAIN BANANA COMPANIES, EMBOFF MET SEPTEMBER 5 WITH LOCAL STANDARD FRUIT COMPANY REPRESENTATIVE EDUARDO DE LA ESPRIELLA.

2. DE LA ESPRIELLA STATES THAT THE NEW TAX FORMULA HAS NOT YET BEEN OFFICIALLY COMMUNICATED TO HIS COMPANY BY THE GOCR. AS MINISTER SANCHEZ HAS STATED (REFTEL) THAT HE DID DISCUSS THE FORMULA WITH STANDARD'S MANAGER IGLEAHEART ON AUGUST 28, IT WOULD APPEAR THAT THE COMPANY INTERPRETED SANCHEZ'S PRESENTATION -- PROBABLY CORRECTLY -- AS MORE AN IDEA THAT THE GOVERNMENT MIGHT FIND ACCEPTABLE THAN A TRUE PROPOSAL. STANDARD HAS CONFIRMED IN WRITING TO GOCR THAT IT DOES NOT WISH TO SELL ITS BANANA PROPERTIES.

3. IF THE SANCHEZ FORMULA SHOULD BECOME A FORMAL PROPOSAL FROM THE GOCR, DE LA ESPRIELLA THOUGHT THAT STANDARD'S REACTION TO IT WOULD TEND TO FOLLOW THAT OF UNITED -- STANDARD WILL HAVE TO ACCEPT WHATEVER UNITED ACCEPTS. STANDARD WOULD THEN MAKE APPROPRIATE ADJUSTMENTS IN ITS PRODUCTION AS DETERMINED BY THE NEW COST FACTORS, SHUTTING DOWN ANY UNITS OF PRODUCTION THAT MIGHT BE RENDERED UN-ECONOMIC AT THE NEW COST LEVELS. STANDARD MIGHT HOPE TO MINIMIZE ADVERSE AFFECTS FROM ANY INCREASE IN THE PRICE IT PAYS TO INDEPENDENT PRODUCERS BY INDUCING THEM TO TAKE SOME OR ALL OF SUCH INCREASES IN THE FORM OF INCREASES IN PRODUCTIVE INPUTS SUPPLIES BY STANDARD. FOR EXAMPLE, RATHER THAN GIVE A 25 CENT PRICE INCREASE TO INDEPENDENTS (WHICH WOULD ONLY ADD TO COST) IT COULD SUPPLY 25 CENTS WORTH OF FERTILIZER PER BOX, THEREBY INCREASING PRODUCTION AND REDUCING THE PER BOX ADDITION TO COST. WHETHER, IN FACT, STANDARD WOULD FOLLOW THIS COURSE WOULD DEPEND ON THE RESULTS OF A COMPLETE ECONOMIC STUDY OF AVAILABLE ALTERNATIVES.

4. DE LA ESPRIELLA EXPECTS BANANA NEGOTIATIONS WITH THE GOCR TO COME TO A HEAD IN THE NEAR FUTURE. A DELATION LED BY STANDARD PRESIDENT D. J. KIRCHHOFF HOPES TO VISIT COSTA RICA DURING THE PERIOD SEPTEMBER 16 - 20
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AND HAS REQUESTED A MEETING WITH PRESIDENT ODUBER. PURPOSE OF THIS VISIT, EMBOFF INFERRED FROM DE LA ESPRIELLA'S COMMENTS, IS MORE TO EXPLAIN STANDARD'S SITUATION IN THE HOPE THAT ITS PROBLEMS WILL BE GIVEN CONSIDERATION BY THE GOVERNMENT THAN TO NEGOTIATE A SETTLEMENT, WHICH TASK WILL BE LEFT TO UNITED IF STANDARD CONTINUES TO HEW TO ITS POLICY OF LETTING THE LARGER COMPANY TAKE THE LEAD.

5. AS FOR UNITED'S REACTION TO MINISTER SANCHEZ'S NEW BANANA TAX PROPOSAL, THE BEST INFORMATION THAT THE EMBASSY NOW HAS SUGGESTS THAT UNITED WILL BE RELUCTANT TO AGREE TO ANY SETTLEMENT MORE ONEROUS THAN THE FORMULA ALREADY NEGOTIATED WITH HONDURAS. ACCORDING TO INFORMATION GLEANED LAST WEEK FROM A VISITING OFFICIAL OF UNITED FRUIT (BALBOA), THE COMPANY FEARS A STEPWISE ESCALATION OF DEMANDS THROUGH A PROCESS IN WHICH ANY MORE FAVORABLE FORMULA ESTABLISHED IN ONE COUNTRY WOULD GIVE RISE TO DEMANDS FOR EQUALIZATION FROM COUNTRIES WHERE THE COMPANY HAD ALREADY REACHED A SETTLEMENT AND TO STILL GEATER DEMANDS FROM COUNTRIES WHERE IT WAS YET TO REACH A SETTLEMENT. WHETHER THE COMPANY SO FEARS SUCH A "LEAPFROGGING" PROCESS THAT IT WILL FIRMLY REFUSE TO ACCEPT ANY SETTLEMENT MORE ONEROUS FOR IT THAN THE HONDURAN FORMULA, OR WHETHER THIS LINE OF ARGUMENTATION IS ONLY AN INITIAL BARGAINING TACTIC REMAINS TO BE SEEN. MOST ASSUREDLY THE COMPANY WILL WANT TO AVOID A TRUE "LEAPFROGGING" PROCESS AND ACHIEVE A GENERALIZED SETTLEMENT WITH SOME RATIONAL COMPARABILITY IN THE VARIOUS PRODUCER COUNTRIES, BUT WHY THE TAX LEVEL IN ALL NEEDS TO BE BASED ON THE PARTICULAR LEVEL THE COMPANY WAS ABLE TO NEGOTIATE WITH HONDURAS IS NOT CONCEPTUALLY OBVIOUS.

6. BALBOA, LIKE DE LA ESPRIELLA, EXPRESSED THE OPINION THAT BANANA TALKS WITH COSTA RICA MAY COME TO A HEAD IN THE NEAR FUTURE.

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TO SECSTATE WASHDC 8024

INFO AMEMBASSY BOGOTA
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C O N F I D E N T I A L SECTION 2 OF 2 SAN JOSE 3439

7. MEANWHILE ON THE GOVERNMENT SIDE, PRESIDENT ODUBER MADE A SPEECH SEPTEMBER 5 TO THE SECOND MEETING OF BANANA WORKERS OF LATIN AMERICA, WHICH IS TAKING PLACE HERE, IN WHICH HE TOOK A MILITANT AND EVEN DEMOGOGIC STANCE, IF PRESS REPORTS OF HIS REMARKS ARE ACCURATE. AFTER MUCH RHETORIC ABOUT 100 YEARS OF BANANA IMPERIALISM, AND CHARGES THAT THE BANANA COMPANIES ONLY PAY PRODUCING COUNTRIES "A TWENTIETH OF THE PRICE AT WHICH THEY SELL THE FRUIT IN THE MARKETS OF INDUSTRIALIZED COUNTRIES," ODUBER REPORTEDLY SAID THAT THE STRUGGLE TO INCREASE BANANA PRICES HAS HARDLY BEGUN. HE PLEDGED THAT COSTA RICA WILL HAVE AN INCREASE OF ONE DOLLAR PER BOX IN BANANA PRICES BEFORE HIS GOVERNMENT ENDS ITS TERM. HE EMPHASIZED THAT ACHIEVING HIGHER PRICES WILL REQUIRE UNITY AMONG PRODUCER COUNTRIES AND OBSERVED WITH DISAPPROVAL THAT "THE BANANA COMPANIES HAVE SUCCEEDED IN FINDING A LACK OF SOLIDARITY AND PATRI-CONFIDENTIAL

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OTISM IN OTHER BANANA COUNTRIES AND THAT THIS SITUATION HAS MADE THE STRUGGLE MORE DIFFICULT."

8. ODUBER'S REPORTED REMARKS ARE DISTINCTLY UNHELPFUL IN A SITUATION THAT SEEMED TO BE IMPROVING, BUT AT THIS POINT THE EMBASSY IS INCLINED TO INTERPRET THEM AS RHETORICAL RATHER THAN AS AN INDICATION OF A HARDENING OF THE GOVERNMENT'S POSITION.

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